

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** April 30, 2007 (As amended April 25, 2007 by the House of Representatives)

**Bill Number:** H.B. 3567

**Authors:** Rice; Gullick; Cotty; Agnew

**Committee Requesting Impact:** Senate Finance Committee

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### Bill Summary

A bill to amend Section 12-21-620, of the Code of Laws of South Carolina, 1976, relating to taxation on cigarettes, so as to increase the amount of tax on each cigarette from three and one-half mills to two cents; to add Section 44-6-157 so as to provide that the revenue generated from the taxation on cigarettes must be used to expand Medicaid coverage to children eighteen years of age and younger whose family income does not exceed two hundred percent of the federal poverty level; and to create the Health Care Trust Fund to provide Medicaid benefits to individuals whose family income does not exceed one hundred percent of the federal poverty level and who are uninsured and to provide that revenue in excess of the children's Medicaid coverage from the cigarette tax must be credited to the Health Care Trust Fund; and to amend Section 12-36-910, as amended, relating to sales taxes generally, so as to provide that as of July 1, 2009, the three percent sales tax is eliminated on unprepared food which lawfully may be purchased with United States Department of Agriculture food coupons, to provide for certain general fund transfers to the Education Improvement Act Fund for each fiscal year to offset EIA revenues lost as a result of the loss of sales tax on the sale of unprepared food, and to reduce the sales tax on unprepared food to two percent as of July 1, 2007, and one percent as of July 1, 2008.

### REVENUE IMPACT <sup>1/</sup>

This bill, as amended, is expected to increase General Fund business license tax revenue by an estimated \$53,635,000 in FY2007-08. The food tax reduction would reduce General Fund revenue by \$54,000,000 in FY2007-08 for one-half of the fiscal year. This bill, as amended, also contains an E.I.A. hold harmless provision that would reduce General Fund revenue by \$10,800,000 in FY2007-08. The food tax reduction would reduce General Fund revenue by an estimated \$108,000,000 in FY2008-09. The net effect of this amended bill is a reduction of General Fund revenue by an estimated \$365,000 in FY2007-08.

### Explanation of Amendment (April 25, 2007) – By the House of Representatives

This amendment would impose a 30-cent surcharge on each pack of 20 cigarettes beginning January 1, 2008 and is expected to generate an estimated \$53, 635,000 in FY2007-08. Section 2 of the amendment would amend Section 12-36-910(D) to reduce the sales and use tax on food purchased for home consumption by U.S. Department of Agriculture food coupons from the current rate of three percent to one and four-tenths of one percent beginning January 1, 2008. This would reduce the sales and use tax on grocery store items by an estimated \$54,000,000 in FY2007-08. Of this amount, General Fund sales and use tax revenue would be reduced by \$43,200,000 and EIA funds would be reduced by \$10,800,000 in FY2007-08. This amendment contains an EIA hold harmless provision and requires the transfer of an estimated \$10,800,000 from the General Fund to the EIA Fund in FY2007-08 as a result of the one and sixth-tenths percent reduction in the sales tax rate of eligible food items. The amendment also requires that in any fiscal year that the business license tax on cigarettes is greater than 7-cents a pack, the General Assembly shall appropriate \$1,000,000 to the Department of Agriculture for research and promotion of healthy lifestyles with food grown in South Carolina. This act takes effect January 1, 2008.

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### **Explanation of Amendment (March 20, 2007) – By the Licenses, Fees, Insurance Tax Subcommittee**

This amendment would add Section 12-21-625 to increase the levy on each cigarette made of tobacco or any substitute for tobacco by one and one-half cent on each cigarette. This equates to a 30-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 37 cents per pack of 20 cigarettes. The higher surcharge is expected to generate an estimated \$107,270,000 of business license tax revenue in FY2007-08. Since the effective date of this act is January 1, 2008, the higher surcharge is expected to generate an estimated \$53,635,000. The Department of Health and Environmental Control must be allocated five percent, or an estimated \$2,681,750 of cigarette tax revenue, to fund a Youth Smoking Prevention and Cessation Fund. DHEC is also allocated an amount equal to one cent of the cigarette tax increase, or an estimated \$1,787,500, that must be used in the Superb Fund for the cleanup of underground gasoline tanks to satisfy any existing Environmental Protection Agency deficiencies. Upon satisfaction of the deficiency, the one cent must be returned to the Reserve Trust Fund in the DHHS. The Department of Agriculture is allocated \$1,000,000 for research and promotion of healthy lifestyles with food grown in South Carolina. The remaining \$48,165,750 is allocated to a new Health Care Trust Fund to be used by the Department of Health and Human Services (DHHS) to expand coverage under the state Medicaid program to children eighteen years of age and under whose family income does not exceed one hundred percent of the federal poverty level. Any remaining funds must be used by the DHHS to provide Medicaid coverage to individuals nineteen years of age and older who are uninsured and whose family income does not exceed one hundred percent of the federal poverty level. There is created within the DHHS a new Reserve Trust Fund for the state Medicaid program to fund any shortfalls in the DHHS operating budget up to one and one-half percent of DHHS's operating budget from any unobligated proceeds from the surcharge on cigarettes. Because the higher tax will reduce cigarette demand, the Business License tax currently allocated to the General Fund will be reduced by an estimated \$1,090,750 in FY2007-08.

Section 2 of the amendment would amend Section 12-36-910(D) to reduce the sales and use tax on food purchased for home consumption by U.S. Department of Agriculture food coupons from the current rate of three percent to one and one-half of one percent. This would reduce the sales and use tax on grocery store items by an estimated \$101,250,000 in FY2007-08. Since the effective date of this provision is January 1, 2008, sales and use tax revenue would be reduced by one-half, or an estimated \$50,625,000 in FY2007-08. The amendment contains an EIA hold harmless provision and requires the transfer of an estimated \$23,636,813 from the General Fund to the EIA Fund in FY2007-08 as a result of the three and one-half percent reduction in the sales tax rate of eligible food items.

Section 5 of the amendment would authorize that cigarette tax stamps be affixed to each package of cigarettes before they may be sold at retail establishments. The stamps must be purchased at the Department of Revenue and the amendment allows for a five percent discount on stamp purchases of \$25 or more. Based on an estimated 357,567,000 packs of cigarettes and applying the one-cent stamp tax and the five percent discount for one-half of the fiscal year, this section would increase General Fund business license tax revenue by an estimated \$1,700,000 in FY2007-08.

Section 6 of the amendment would allow the act to take effect January 1, 2008.

### **Explanation of Bill filed February 21, 2007**

This bill would amend Section 12-21-620 to increase the levy on each cigarette made of tobacco or any substitute for tobacco to two cents on each cigarette. This equates to a 33-cent surcharge on each pack of 20 cigarettes, raising the state excise tax to 40 cents per pack of 20 cigarettes. The higher surcharge is expected to generate an estimated \$116,948,000 of business license tax revenue in FY2007-08. Of this amount, an estimated \$22,956,606 is allocated to the Department of Health and Human Services (DHHS) to expand coverage under the state Medicaid program to children eighteen years of age and under whose family income does not exceed two hundred percent of the federal poverty level. The remaining funds must be allocated to a new Health Care Trust Fund to be used by the DHHS to provide Medicaid coverage to individuals nineteen years of age and older who are uninsured and whose family income does not exceed one hundred percent of the federal poverty level. Because the higher tax will reduce cigarette demand, the Business License tax currently allocated to the General Fund will be reduced by an estimated \$2,403,252 in FY2007-08. This bill also reduces

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the sales and use tax rate on the sales of unprepared food purchased in grocery stores to two percent from July 1, 2007 through June 30, 2008, and to one percent from July 1, 2008 through June 30, 2009, and is eliminated effective July 1, 2009. The reduced rates of sales taxation on eligible food items purchased in grocery stores will reduce sales and use tax revenue by an estimated \$73,828,000 in FY2007-08, \$80,754,000 in FY2008-09, and \$88,181,000 by FY2009-10. This bill also contains an Education Improvement Act (EIA) hold harmless provision. The amount of revenue that the EIA would have received is to be estimated by the BEA and transferred from the General Fund to the EIA Fund. We estimated the EIA hold harmless amounts to be \$14,800,000 in FY2007-08, \$16,200,000 in FY2008-09, and \$17,600,000 in FY2009-10.

/s/ WILLIAM C. GILLESPIE, PH.D.

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Chief Economist

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<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.